



JOHN NAIMO
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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March 3, 2015

TO: Supervisor Michael D. Antonovich, Mayor
Supervisor Hilda L. Solis
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe

FROM: John Naimo 
Auditor-Controller

SUBJECT: **TARZANA TREATMENT CENTERS – A DEPARTMENT OF PUBLIC
HEALTH DIVISION OF HIV AND STD PROGRAMS PROVIDER –
CONTRACT COMPLIANCE REVIEW**

We completed a contract compliance review of Tarzana Treatment Centers (Tarzana or Agency), which included a sample of transactions from Contract Year (CY) 2012-13. We also reviewed CY 2011-12 Cost Reports. The Department of Public Health Division of HIV and STD Programs (DHSP) contracts with Tarzana to provide Ryan White Comprehensive AIDS Resources Emergency Act (Ryan White) services such as case management, residential rehabilitation, and health education.

The purpose of our review was to determine whether Tarzana provided the services outlined in their County contracts and appropriately spent DHSP funds. We also evaluated the adequacy of the Agency's financial records, internal controls, and compliance with their contracts and other applicable guidelines.

We reviewed nine contracts between DHSP and Tarzana, for which DHSP paid Tarzana approximately \$1.5 million on a cost-reimbursement and fee-for-service basis which covered various contract months from January 2012 to March 2013. Tarzana provides services to clients residing in the Second, Third, Fourth, and Fifth Supervisorial Districts.

Results of Review

Tarzana maintained adequate documentation to support clients' eligibility for DHSP services. However, the Agency charged DHSP \$118,196 (\$106,403 for the fee-for-service contracts and \$11,793 for the cost-reimbursement contracts) in questioned costs and did not always comply with their County contract requirements. For example, Tarzana charged:

Fee-For-Service Expenditures

- \$39,412 (\$22,355 + \$12,999 + \$4,058) for professional and rent expenditures that were not supported by adequate documentation, and not allocated appropriately. We noted similar findings in our prior monitoring review.

Tarzana's attached response indicates that they disagree with the \$12,999 in questioned rent expenditures because the rent expenditures were allocated appropriately based on their cost allocation system. However, the cost allocation documentation provided did not adequately support the \$12,999.

In addition, Tarzana's response indicates that they cannot adjust their general ledger for the \$39,412 because the period under review has been closed. This will be addressed during the resolution process. Tarzana agreed to ensure that the other recommendations are implemented.

- \$32,828 for rent expenditures that were double-posted.

Tarzana's response indicates that they agree with the finding, but cannot adjust their general ledger because the period under review has been closed. This will be addressed during the resolution process.

- \$908 for unallowable lab expenditures, such as services for non-Ryan White clients.

Tarzana's response indicates that they agree with the finding and will ensure expenditures are allowable.

Cost-Reimbursement Expenditures

- \$1,748 for supplies that were delivered after the contract term ended. We noted a similar finding in our prior monitoring review.

Tarzana's response indicates they did not have time to bill the expenditures to the correct contract term because the contract period ended by the time they received the audit findings.

- \$1,296 for rent expenditures that were not supported by adequate documentation, appropriately allocated, and based on actual activity as required. We noted a similar finding in our prior monitoring review.

Tarzana's response indicates that the \$1,296 was appropriately charged. However, the documentation provided did not adequately support the questioned costs.

Payroll

- \$42,004 for unsupported shared payroll expenditures. Specifically, Tarzana provided documentation that they allocated payroll costs based on estimated allocation percentages, instead of actual activity as required. After our review, the Agency provided additional documentation to support \$38,768 in payroll expenditures. The remaining questioned costs are \$3,236 (\$1,769 for fee-for-service and \$1,467 for cost-reimbursement).

Tarzana's response indicates that the remaining questioned costs relates to one employee who worked 100% on DHSP contracts. However, the expenditures were not supported by the employee's time reports.

Details of our review, along with recommendations for corrective action, are attached.

Review of Report

We discussed our report with Tarzana and DHSP. Tarzana's attached response indicates they disagree with some of our findings and recommendations. DHSP and the Auditor-Controller will work with Tarzana to ensure that the recommendations are implemented.

We thank Tarzana management and staff for their cooperation and assistance during our review. If you have any questions please call me, or your staff may contact Don Chadwick at (213) 253-0301.

JN:AB:DC:EB:ku

Attachments

- c: Sachi A. Hamai, Interim Chief Executive Officer
Cynthia A. Harding, M.P.H., Interim Director, Department of Public Health
Scott Taylor, Chairman Emeritus, Tarzana Treatment Centers
Albert M. Senella, President and Chief Executive Officer, Tarzana Treatment Centers
Public Information Office
Audit Committee

**TARZANA TREATMENT CENTERS
DIVISION OF HIV AND STD PROGRAMS
CONTRACT COMPLIANCE REVIEW
CONTRACT YEAR 2012-13**

ELIGIBILITY

Objective

Determine whether Tarzana Treatment Centers (Tarzana or Agency) provided services to individuals who met the Department of Public Health Division of HIV and STD Programs (DHSP) Ryan White Comprehensive AIDS Resources Emergency Act (Ryan White) eligibility requirements.

Verification

We reviewed the case files for 30 (4%) of the 803 clients who received services from March 2012 through March 2013 for documentation to confirm their eligibility for Ryan White services. The 30 case files represent services provided to 27 clients.

Results

Tarzana had documentation to support the eligibility of the 27 clients reviewed.

Recommendation

None.

PROGRAM SERVICES

Objective

Determine whether Tarzana provided the services required by their County contracts and DHSP guidelines, clients received the billed services, and the Agency collected fees from eligible clients in accordance with their County contracts.

Verification

We visited one Tarzana service site, and reviewed the case files for 30 (4%) of the 803 clients who received services from March 2012 through March 2013. We also determined whether the Agency collected fees from clients in accordance with the Agency's approved client fee schedules.

Results

Tarzana provided the services required to the 27 clients reviewed. However, the Agency's client fee schedules were not in compliance with Ryan White requirements, and Tarzana did not obtain approval from DHSP for their client fee schedules as required by Paragraph 48 of the Additional Provisions of their County contracts. We noted similar findings in our prior monitoring review.

Recommendations**Tarzana Treatment Centers management:**

- 1. Revise their client fee schedules to be in compliance with Ryan White requirements.**
- 2. Obtain approval from the Division of HIV and STD Programs for their client fee schedules, as required by their County contracts.**

CASH/REVENUE**Objective**

Determine whether Tarzana properly recorded revenue in their financial records, deposited cash receipts into their bank accounts timely, and that bank account reconciliations were prepared and approved by Agency management timely.

Verification

We interviewed Tarzana management, and reviewed their financial records and February 2013 bank reconciliations for three bank accounts.

Results

Tarzana properly recorded revenue in their financial records, deposited DHSP cash receipts timely, and bank reconciliations were prepared and approved by Agency management timely.

Recommendation

None.

EXPENDITURES/COST ALLOCATION PLAN

Objective

Determine whether Tarzana's Cost Allocation Plan (Plan) complied with their County contracts, and if expenditures charged to DHSP were allowable, properly documented, and accurately billed.

Verification

We reviewed Tarzana's Plan and their financial records for 26 non-payroll expenditures, totaling \$71,971, that the Agency charged to DHSP from January 2012 to March 2013. Based on the results of our initial review, we expanded our sample to include an additional \$30,273 in rent expenditures charged from March 2012 to February 2013. In total, we reviewed a total of \$102,244 in expenditures (\$82,331 for fee-for-service and \$19,913 for cost-reimbursement). We also interviewed Agency personnel.

Results

Tarzana prepared their Plan in compliance with their County contracts. However, the Agency charged DHSP \$76,192 in questioned costs. Specifically:

Fee-For-Service

Tarzana charged \$73,148 in questioned costs under their fee-for-service contracts. Specifically, the Agency charged:

- \$32,828 for rent expenditures that were double-posted.
- \$22,355 for legal fees that were not allocated to administration as required, and incurred before a professional agreement was established.
- \$12,999 for rent expenditures that were not supported by adequate documentation, allocated appropriately, and based on actual activity as required. We noted a similar finding in our prior monitoring review.
- \$4,058 for consultant expenditures that were not supported by adequate documentation.
- \$908 for unallowable lab expenditures, such as services for non-Ryan White clients.

Cost-Reimbursement

Tarzana billed DHSP \$3,044 in questioned costs under their cost-reimbursement contracts. Specifically, the Agency billed:

- \$1,748 for supplies that were delivered after the contract term ended. We noted a similar finding in our prior monitoring review.
- \$1,296 for rent expenditures that were not supported by adequate documentation, appropriately allocated, and based on actual activity as required. We noted a similar finding in our prior monitoring review.

Recommendations

Tarzana Treatment Centers management:

3. **Repay the Division of HIV and STD Programs \$3,044, or provide adequate documentation to support the expenditures.**
4. **Reduce the fee-for-service program expenditures by \$73,148, or provide adequate documentation to support the expenditures.**
5. **Maintain adequate documentation to support expenditures and allocation percentages used.**
6. **Ensure expenditures are allocated appropriately, recorded accurately, and allowable.**
7. **Establish professional agreements before receiving professional services.**
8. **Ensure allocations are based on actual activity.**
9. **Ensure that billed expenditures are incurred during the contract period.**

PAYROLL AND PERSONNEL

Objective

Determine whether Tarzana appropriately charged payroll costs to DHSP, and maintained personnel files as required.

Verification

We compared the payroll costs for eight employees, totaling \$60,403 from March 2012 to February 2013, to the Agency's payroll records and time reports. We also interviewed staff, and reviewed personnel files for the same eight employees.

Results

Tarzana maintained personnel files as required. However, the Agency did not provide adequate documentation to support that \$42,004 (70%) in shared payroll expenditures was allocated using an acceptable allocation method. Specifically, Tarzana provided documentation that they allocated payroll costs based on estimated allocation percentages, instead of actual activity as required. After our review, the Agency provided additional documentation to support \$38,768 in payroll expenditures. The remaining questioned costs are \$3,236.

Recommendations

Refer to Recommendations 5, 6, and 8.

10. Tarzana Treatment Centers management reallocate the \$3,236, revise their financial records, and repay the Division of HIV and STD Programs for any overbilled amounts.

COST REPORTS**Objective**

Determine whether Tarzana's Contract Years (CY) 2011-12 and 2012-13 Cost Reports reconciled to their financial records.

Verification

We compared the Agency's CYs 2011-12 and 2012-13 Cost Reports to their financial records.

Results

Tarzana's CYs 2011-12 and 2012-13 Cost Reports reconciled to their financial records.

Recommendation

None.

CORPORATE OFFICERS

Albert M. Sonella
President
Chief Executive Officer

Bobbi Sloan, Ph.D
Vice President
Board Chairperson

Silvia Cadona
Secretary/Treasurer
Fiscal Officer

Scott Taylor
Chairman Emeritus



Integrated Healthcare
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January 30, 2015

Mr. John Naimo
County of Los Angeles
Department of Auditor-controller
500 West Temple Street, Room 525
Los Angeles, California 90012-3873

RE: Contract Compliance Review
Contract Years 2011-12 and 2012-13

Dear Mr. Naimo:

We are responding to your findings in your report dated January 20, 2015, copy attached.

Recommendation – Program Services

Tarzana management:

1. Revise their client fee schedules to be in compliance with Ryan White requirements.
2. Obtain approval from the Division of HIV and STD Programs for their client fee schedules, as required by their County contracts.

Response – Program Services

1. TTC has previously submitted and received approval from OAPP on a sliding scale fee assessment tool. We are willing to submit an updated client fee schedule so that it can be approved in compliance with Ryan White requirements. We agree to submit an updated client fee schedule within 30 days.
2. TTC agrees to obtain approval for our client fee schedules, as required by our County contracts. We agree to submit our client fee schedules for approval within 30 days.

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January 30, 2015
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Recommendation – Expenditures/Cost Allocation Plan

3. Repay the Division of HIV and STD Programs \$3,044, or provide adequate documentation to support the expenditures.
4. Reduce the fee-for-service program expenditures by \$73,148, or provide adequate documentation to support the expenditures.
5. Maintain adequate documentation to support expenditures and allocation percentages used.
6. Ensure expenditures are allocated appropriately, recorded accurately, and allowable.
7. Establish professional agreements before receiving professional services.
8. Ensure allocations are based on actual activity.
9. Ensure that billed expenditures are incurred during the contract period.

Response – Expenditures/Cost Allocation Plan

3. The County has indicated that it agrees that the \$1,748 in program supplies were used for servicing clients, albeit in the next contract period, because the supplies were not received until after the contract period. Since the County audit findings were not received until approximately 1 ½ years after the contract period, this did not allow us time to bill the next contract period for the supplies used. We do not believe we should be required to repay this amount, and request that this item be adjusted to zero.

We believe that the \$1,296 allocated to rent expense was appropriately charged to the program. Rent was adjusted at the end/closing term of the contract, while taking consideration of a budget modification approval.

4. We cannot adjust our general ledger because the period under review has been closed. We will continue to make every effort to ensure that costs are adequately documented.

The questioned costs of \$32,828 for rent expenditures was not double-posted. Although this amount was posted in our general ledger, it was not claimed as an expenditure on any of our County cost reports. We cannot adjust our general ledger because the period under review has been closed.

We have adjusted our fee-for-service expenditures on our amended cost report filed with L.A. County in May 2013.

Rent expenditures were allocated appropriately based on our FTE based cost allocation system. The correct amount of rent allocation of \$12,999 was charged to the program as evidenced by the amount charged on the cost report.

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Response – Expenditures/Cost Allocation Plan (continued)

The \$908 lab services were costs incurred to operate this program and serve clients even though clients who were treated may not have qualified as Ryan White clients. These charges were actual costs incurred and were posted to the general ledger. It was later determined that the questioned charges were for MediCal clients. We will make every effort to verify that the clients qualify as Ryan White clients at the time of admission to the program.

5. We strive to continue to improve our record keeping and allocation documentation. We agree to maintain adequate documentation.
6. We agree to ensure expenditures are allocated appropriately, recorded accurately, and are allowable.
7. We agree to establish professional agreements before receiving professional services.
8. We agree to ensure that allocations are based on actual activity.
9. We agree to ensure that billed expenditures are incurred during the contract period.

Recommendation – Payroll and Personnel

10. Reallocate the \$3,236 (\$42,004 - \$31,486 - \$7,282), revise their financial records, and repay the Division of HIV and STD Programs for any overbilled amounts.

Response – Payroll and Personnel

10. We cannot adjust our general ledger because the period under review has been closed. The employee worked 100% on OAPP contracts. We do not have any overbilled amounts.

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January 30, 2015
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Thank you for your cooperation during the audit. We wish to note that there was a delay of approximately 1 ½ years since the audit fieldwork was completed until the exit interview. Please feel free to contact me via e-mail at asenella@tarzanatc.org or by telephone at (818) 654-3815 should you have any questions.

Respectfully,

A handwritten signature in blue ink, appearing to read "A. M. Senella".

Albert M. Senella
President and Chief Executive Officer